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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

December 31, 2003

MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

December 31, 2003

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APPOINTIVE OFFICIALS

Gerald J. LaChere, Lottery Director

L. John Onstad, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Clifford Brophy	Columbus	January 1, 2005
Donald Sterhan	Billings	January 1, 2005
Tom Keegan	Helena	January 1, 2006
Betty Wilkins	Missoula	January 1, 2006
Robert Crippen	Butte	January 1, 2007

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor - Judy Martz
Director of Dept. of Administration – Scott Darkenwald
Legislative Auditor - Scott Seacat
President of the Senate – Bob Keenan
Speaker of the House – Doug Mood

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature".

The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – State Administration Committee

Debby Barrett, Chair
Dee Brown, Vice Chair Majority
Larry Jent, Vice Chair Minority
Norman Ballantyne
Arlene Becker
Sue Dickenson
Carol Gibson
Dan Hurwitz
Hal Jacobson
Larry Lehman
Ralph Lenhart
Alan Olson
Bernie Olson
Don Roberts
Clarice Schrumpf
Frank Smith
Pat Wagman
Jonathan Windy Boy
Cindy Younkin

HOUSE – Business & Labor Committee

Joe McKenney, Chair
Don Steinbeisser, Vice Chair Majority
Jim Keane, Vice Chair Minority
Bob Bergren
Rod Bitney
Sylvia Bookout-Reinicke
Nancy Rice Fritz
Dave Gallik
Kathleen Galvin-Halcro
Ray Hawk
Bob Lawson
Rick Maedje
Gary Matthews
Scott Mendenhall
Penny Morgan
Allen Rome
Sandy Weiss
Bill Wilson

SENATE – State Administration Committee

John Cobb, Chair
Mike Sprague, Vice Chair
Kelly Gebhardt
Carolyn Squires
Mike Wheat

SENATE – Business & Labor Committee

Dale Mahlum, Chair
Mike Sprague, Vice Chair
Sherm Anderson
Vicki Cocchiarella
Kelly Gebhardt
Bob Keenan
Sam Kitzenberg
Ken Hansen
Glenn Roush
Don Ryan
Carolyn Squires
Fred Thomas

Montana Lottery

March 2003

Montana Lottery Commission:

In the second quarter of fiscal year 2004, the Lottery achieved its largest General Fund transfer in at least the last five years. This quarter's transfer of $2,654,920 is a 17% increase over the $2,277,852 transferred in fiscal year 2003 and represents 37.6 % of the total budgeted transfer for the year. For the first 6 months of the year, all products except Wild Card are showing increased sales; and overall revenues are $1,212,062 or 6.6% ahead of last year. In addition, the return of Powerball reserves from MUSL in the amount of $428,959 helped increase the bottom line.

Total operating expenses for the quarter of $1,028,382 were slightly higher as opposed to last year's quarterly total of $996,970. Operating expenses for the year are also slightly above last year but compare favorably to the budget at 45.73 of total budgeted expenditures for the year. Differences are reductions in the amount of interest on our loan, less travel and discontinuance of participation in fairs and events. Increases are in research and advertising for the Qwik Tix product line, insurance coverage, equipment replacement, personal services and audit costs.

Qwik Tix was launched on February 2 as scheduled. It is yet too early to gauge the success of the product and we are currently working on increasing sales and evaluating the product.

Sincerely,

Gerald J. LaChere

Gerald J. LaChere
Director

2525 North Montana Avenue • Helena, MT 59601-0598
Phone 406-444-LUCK (5825) • Fax 406-444-5830

MONTANA LOTTERY
STATEMENT OF NET ASSETS
DECEMBER 31, 2003 and 2002
(UNAUDITED)

	Period Ended December 31, 2003	Period Ended December 31, 2002
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 567,665	$ 967,228
Receivables (Net)	1,985,962	2,107,268
Due from Other Funds	0	2,255
Inventories	723,999	821,228
Other Current Assets	23,868	19,810
TOTAL CURRENT ASSETS	3,301,494	3,917,789
NONCURRENT ASSETS		
Computer, Furniture & Equipment	5,551,627	5,549,820
Accumulated Depreciation	(3,489,945)	(2,638,758)
Software, net of Amortization	369,643	533,929
Multi-State Receivable	1,279,242	1,733,513
TOTAL NONCURRENT ASSETS	3,710,567	5,178,504
TOTAL ASSETS	$ 7,012,061	$ 9,096,293
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 456,348	$ 690,534
Estimated Prize Liability	1,810,005	2,399,678
Due to Other Funds	1,306	4,036
Transfer Obligations	2,654,920	2,277,852
Deferred Revenue	86,412	184,768
Current Portion Comp. Absences	107,343	101,424
Current Portion Long-Term Debt	561,976	1,081,960
TOTAL CURRENT LIABILITIES	5,678,310	6,740,252
NONCURRENT LIABILITIES		
MUSL Prize Liability	1,265,776	1,719,048
Note Payable	0	561,976
Accrued Compensated Absences	67,975	75,017
TOTAL NONCURRENT LIABILITIES	1,333,751	2,356,041
TOTAL LIABILITIES	7,012,061	9,096,293
NET ASSETS		
Unrestricted Net Assets	0	0
TOTAL LIABILITIES AND NET ASSETS	$ 7,012,061	$ 9,096,293

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE QUARTERS ENDED DECEMBER 31, 2003 and 2002
(Unaudited)

	Quarter Ended December 31, 2003	Quarter Ended December 31, 2002	Six Months Ended December 31, 2003	Six Months Ended December 31, 2002
OPERATING REVENUES:				
Instant ticket revenue	$ 2,670,602	$ 2,461,772	$ 5,263,859	$ 5,019,256
Powerball revenue	5,107,491	5,417,866	9,786,266	8,989,351
Montana Cash revenue	1,153,082	974,967	2,060,372	1,806,008
Wild Card revenue	596,677	698,845	1,145,479	1,282,696
Hot Lotto/Rolldown revenue	578,705	579,713	1,212,630	1,148,707
900 # Income	0	4,091	0	9,557
License, permits, and misc	200	1,014	855	1,824
Total Operating Revenues	10,106,757	10,138,268	19,469,461	18,257,399
Less Direct Game Costs:				
Instant ticket prize expense	(1,613,898)	(1,432,157)	(3,176,876)	(2,998,522)
On-line ticket prize expense	(3,215,672)	(3,816,181)	(6,525,256)	(6,583,313)
Retailer commission	(580,985)	(582,355)	(1,117,868)	(1,071,727)
Cost of tickets sold	(189,026)	(185,045)	(366,337)	(353,819)
Vendor fees	(835,652)	(865,402)	(1,632,546)	(1,540,422)
Net Operating Revenue	3,671,524	3,257,128	6,650,578	5,709,596
OPERATING EXPENSES:				
Advertising	153,897	194,501	246,658	262,626
Advertising Production	58,565	25,277	86,271	52,705
Audit Fees	14,609	6,149	35,756	17,972
Bad Debts Expense	(23)	(45)	(68)	(90)
Communications	18,291	21,444	37,169	42,688
Contractual Services	64,713	34,081	126,969	70,094
Depreciation and Amortization	265,560	258,633	531,122	523,671
Interest Expense	8,134	21,937	19,943	47,523
Administrative Service Fee	13,573	17,722	27,145	35,444
State Cost Recovery	1,522	2,104	3,045	4,208
Multi-State Dues	0	0	91,967	89,435
Public Relations	9,647	3,712	12,132	20,290
Other	5,036	5,861	8,925	12,210
Personal Services	343,220	343,101	705,563	688,260
Repairs and Maintenance	9,011	11,745	12,823	18,269
Supplies and Materials	30,301	15,818	55,636	60,531
Travel	3,643	7,340	4,918	15,853
Utilities and Rent	28,683	27,590	54,248	53,224
Total Operating Expense	1,028,382	996,970	2,060,222	2,014,913
Operating Income	2,643,142	2,260,158	4,590,356	3,694,683
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	16,354	17,694	23,887	41,363
Gain/Loss on sale of asset	(4,576)	0	(4,576)	(460)
Total Nonoperating Revenues(Expenses)	11,778	17,694	19,311	40,903
Income Before Operating Transfers	2,654,920	2,277,852	4,609,667	3,735,586
Operating Transfers In (Out) - General Fund	(2,654,920)	(2,277,852)	(4,609,667)	(3,735,586)
CHANGE IN NET ASSETS	0	0	0	0
Total Net Assets, Beginning of Period	0	0	0	0
TOTAL NET ASSETS, END OF PERIOD	0	$ 0	$ 0	$ 0

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET FUND ASSETS
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003
(Unaudited)

	Budget Fiscal Year July 1, 2003 - June 30, 2004	Actual Six Months Ended December 31, 2003 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Instant ticket revenue	$ 10,250,000	$ 5,263,859	51.35
Powerball revenue	16,500,000	9,786,266	59.31
Montana Cash revenue	3,600,000	2,060,372	57.23
Wild Card revenue	2,400,000	1,145,479	47.73
Hot Lotto revenue	2,100,000	1,212,630	57.74
Qwik Tix	1,600,000	0	0.00
License, permits, and miscellaneous	2,000	855	42.75
Total Revenues	36,452,000	19,469,461	53.41
DIRECT GAME COSTS:			
Prizes - instant ticket	6,047,500	3,176,876	52.53
Prizes - on-line games	13,158,000	6,525,256	49.59
Retailer commissions	2,130,000	1,117,868	52.48
Ticket cost - instant games	743,125	366,337	49.30
Ticket cost - vendor fees	3,043,575	1,632,546	53.64
Total Direct Game Costs	25,122,200	12,818,883	51.03
OPERATING EXPENSES:			
Advertising	670,035	246,658	36.81
Advertising Production	177,200	86,271	48.69
Audit Fees	25,259	35,756	141.56
Communications	84,590	37,169	43.94
Contractual Services	376,200	126,969	33.75
Interest Expense	35,740	19,943	55.80
Administrative Service Fee	54,289	27,145	50.00
State Cost Recovery	6,091	3,045	49.99
Multi-State Dues	126,492	91,967	72.71
Public Relations	18,825	12,132	64.45
Other	14,967	8,925	59.63
Personal Services	1,391,020	695,542	50.00
Repairs and Maintenance	29,810	12,823	43.02
Supplies and Materials	160,490	55,636	34.67
Travel	21,706	4,918	22.66
Utilities and Rent	110,080	54,248	49.28
Equipment	48,735	13,366	27.43
Total Operating Expenses	3,351,529	1,532,513	45.73
Operating Income	7,978,271	5,118,065	64.15
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	0	4,972	
Loss on Sale on Asset		(4,576)	
NET INCOME (BUDGETARY BASIS)	$ 7,978,271	$ 5,118,461	64.16
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
1. Capitalized equipment purchases	48,735	13,366	27.43
2. Adjustment for compensated absences		(10,021)	
3. Adjustment for depreciation expense	(1,039,926)	(531,122)	51.07
4. Bad Debts		68	
5. MUSL interest earnings	70,000	18,915	27.02
Total Reconciling Items	(921,191)	(508,794)	
NET INCOME (GAAP BASIS)	$ 7,057,080	$ 4,609,667	65.32

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003
(UNAUDITED)

	INSTANT	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	QWIK TIX	ADMIN
REVENUES:	$ 5,263,859	$ 9,786,266	$ 2,060,372	$ 1,145,479	$ 1,212,630	$	$ 855
DIRECT GAME COSTS:							
Prize Expense	3,176,876	4,227,162	1,107,934	604,111	586,049		0
Retailer Commissions	407,406	489,517	103,030	57,278	60,637		0
Cost of Tickets Sold	366,337	0	0	0	0		0
Vendor Fees	457,113	809,807	170,494	94,788	100,344		0
NET OPERATING REVENUE	856,127	4,259,780	678,914	389,302	465,600	0	855
OPERATING EXPENSES:							
Advertising	36,751	157,038	17,576	17,576	17,576		141
Advertising Production	6,591	7,638	5,331	5,331	5,330	56,050	0
Audit Fees	0	0	0	0	0		35,756
Bad Debts	0	0	0	0	0		(68)
Communications	22,443	77	77	77	77		14,418
Contractual Services	5,736	812	812	811	812	38,060	79,926
Depreciation and Amortization	149,997	260,808	55,267	30,710	32,488		1,852
Interest	5,584	9,893	2,083	1,158	1,225		0
Administrative Service Fee	10,376	3,220	2,226	1,647	1,548		8,128
State Cost Recovery	0	0	0	0	0		3,045
Multi-State Dues	0	14,504	0	20,577	10,041		46,845
Public Relations	3,688	1,832	1,824	1,824	1,824		1,140
Other	301	0	0	0	0	250	8,374
Personal Services	251,169	88,346	62,296	42,539	41,231		219,982
Repairs and Maintenance	0	0	0	0	0		12,823
Supplies and Materials	20,377	685	603	603	603		32,765
Travel	0	0	0	0	0		4,918
Utilities and Rent	0	0	0	0	0		54,248
TOTAL OPERATING EXPENSES	513,013	544,853	148,095	122,853	112,755	94,360	524,293
OPERATING INCOME	343,114	3,714,927	530,819	266,449	352,845	(94,360)	(523,438)
NONOPERATING REVENUES (EXPENSES)							
Interest Earnings	0	0	0	0	0	0	23,887
Gain(Loss) on Sale of Asset							(4,576)
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	19,311
NET INCOME BY PRODUCT	$ 343,114	$ 3,714,927	$ 530,819	$ 266,449	$ 352,845	(94,360)	$ (504,127)
PROFIT AS A % OF REVENUE	6.52%	37.96%	25.76%	23.26%	29.10%	N/A	N/A

NOTE: THIS IS ONLY SIX MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting agency.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Governmental Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games, Powerball, Wild Card, Montana Cash, and Hot Lotto are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and six months ended December 31, 2003 was zero.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended December 31, 2003, promotional credits resulted in a revenue reduction of approximately $14,832 and an advertising expense reclassification of approximately $10,907. For the six months ended December 31, 2003, promotional credits resulted in a revenue reduction of approximately $26,062 and a prize expense reclassification of approximately $19,183.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each lotto game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all games is represented in the table below.

	Quarter Ended 12/31/03	Quarter Ended 12/31/02	Year To Date 12/31/03	Year To Date 12/31/02
Lotto	$654,773	$119,201	$742,800	$211,381
Scratch	41,273	74,374	90,120	74,203
TOTALS	$696,046	$193,575	$832,920	$285,584

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit with a bank and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	December 31,	
	2003	2002
Short-term investment pool	$474,972	$791,147
Cash on deposit with State Treasurer	82,543	165,931
Cash in revolving deposit account	10,000	10,000
Petty Cash	150	150
TOTALS	$567,665	$967,228

Reference to the State of Montana's Comprehensive Annual Financial Report would identify the level of risk associated with cash and cash equivalents in the short-term investment pool and amounts retained with the State Treasurer. The bank balance of the revolving deposit account was $4,926 at December 31, 2003 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $2,179,997, representing amounts due the Lottery for tickets purchased by retailers. An allowance for doubtful accounts is reported as net of receivables and is based on historical perspective. As of December 31, 2003 the allowance is zero. An allowance for ticket returns is also included in the receivables amount. This allowance represents a reduction in

receivables at December 31, 2003, for estimated ticket returns. This is an estimate based on returns received to date, as well as, an estimate of tickets unsold by retailers for games that have a public sale end date prior to January 1, 2004. The allowance for ticket returns is $211,713 at December 31, 2003. The return of vendor fees related to the allowance for returns is $17,678.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at $668,755 stored in the warehouse, at retailers prior to being activated by the retailer and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At quarter end, supplies inventories totaled $55,244. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets consist of the following:

	December 31,	
	2003	2002
Prepaid Expenses	19,068	15,010
Employee Advances	4,800	4,800
TOTALS	$23,868	$19,810

Transfer Obligations. The account "Transfer Obligations" is $2,654,920 payable to the General Fund at December 31, 2003.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2003	Net Leave Earned/(Used)	Balance December 31, 2003
$185,339	($10,021)	$175,318

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of tickets sold for each lotto drawing. For the quarter and six months

ended December 31, 2003 commissions totaled $580,985 and $1,117,868 respectively.

Included in this amount are retailers' bonus commissions on tickets sold based on incremental sales of scratch tickets. During the quarter and six months ended December 31, 2003 retailers earned bonus commissions of $74,831 and $142,986 respectively.

3. MARKETING PRODUCTION EXPENSES

The Lottery has contracted with several vendors to provide marketing related services and materials. These services include media placement, creative design and layout, and media production. Those services and materials not included in the Advertising and Advertising Production expense categories are printing and ticket dispensers. The cost of these services and materials, included in Operating Expenses as Contracted Services and Supplies and Materials, are detailed below for the six months ended December 31, 2003:

Printing	$45,583
Customer Display Units (CDU)	10,312
Ticket Dispensers	12,667
	$68,562

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services and supplies and materials from other state agencies. These services and materials are detailed below for the quarter ended December 31, 2003:

Insurance	$ 11,292
Warrant Writing Services	237
Payroll Services	740
Audit Fees	21,170
Work Study Contracts	1,178
Computer Fees	12,650
Printing	1,258
State Accounting System Support	4,356
Supplies and Materials	3,837
Mail Processing Fees	2,347
Telecommunications	8,222
Public Relations	7,000

Administrative Service Fees	27,145
SFCAP	3,046
Other	1,365
TOTAL	$105,843

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended December 31, 2003, the prize expense of $4,829,570 is 47.79% of net Lottery ticket revenue of $10,106,557. For the six months ended December 31, 2003, the prize expense of $9,702,132 is 49.83% of net Lottery ticket revenue of $19,468,606.

6. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended December 31, 2003, the net revenue payable to the State General Fund totaled $2,654,920.

7. MULTI-STATE LOTTERY JOINT VENTURE

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, and Hot Lotto are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Receivable with a balance of $1,279,242, as of December 31, 2003 is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

Powerball Prize Reserve Account	$671,500
Powerball Unreserved Account	13,466
Powerball Set Prize Reserve Account	197,500
Wild Card Reserve Account	392,230
Hot Lotto Set Prize Reserve Account	4,546
TOTAL	$1,279,242

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. The Lottery made this payment in full as of June 1990, through an additional 2% of drawing revenue rather than making a lump sum payment. Payments made to this fund are considered a portion of prize expense associated with the game.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana and South Dakota is disbanded. The Lottery contributes to this account through the 55% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

8. GAMES

Currently, the Montana Lottery games are scratch ticket games and four lotto games referred to as Powerball, Montana Ca$h, Wild Card, and Hot Lotto.

Scratch ticket games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $10 million. A player must match all 6 numbers to win the jackpot; players win prizes ranging from $3 to $100,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional bet, the Power Play option provides non-jackpot winners the chance to multiply their prize amount by a factor of two through five.

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $100,000. Players select 5 numbers from a field of 31 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $5,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Lottery introduced Hot Lotto on April 7, 2002. Hot Lotto allows players the chance to win a pari-mutuel jackpot with a guaranteed minimum of $1 million. Players choose 5 numbers from a field of 39 plus 1 Hot Ball number from a field of 19; the first 5 numbers and the Hot Ball must be matched to win the jackpot. Players can win prizes ranging from $2 to $10,000 by matching less than all 5 numbers and/or the Hot Ball. If no ticket wins the jackpot, it rolls over to the next drawing to create a progressive jackpot. Drawings are held twice weekly on Wednesday and Saturday nights.

9. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2001 the Montana Lottery Commission approved the award of a one-year contract with Oberthur Gaming Technologies Corp. (Oberthur) for the provision of scratch tickets; the resulting contract was signed on August 8, 2001. The contract is for one year with the option for six additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

Oberthur, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $7,500,000. The Lottery may terminate this contract by providing proper notification to Oberthur.

On-line Services. On August 18, 1998, the Lottery signed a seven-year contract with Autotote Lottery Corporation to provide an on-line gaming system and associated services beginning March 28, 1999. The contract provides for payments to be made for the purchase of an on-line gaming system including terminals and software. The Lottery paid Autotote Lottery Corporation $5,025,311 for the system on April 26, 1999. Payment under the contract is also based on 8.35% of weekly Lottery sales.

10. CONTINGENT LIABILITIES - PRIZE ANNUITIES

During fiscal year 1989, the Montana Lottery awarded four Big Spin Jackpot prizes totaling $5,000,000. The Lottery made the initial payments to the winners in the amount of $253,088 and on September 26, 1988 the Montana Lottery awarded annuities in the amount of $2,350,180 to Western National Life. Through these annuities, Western National Life makes the remaining payments to the Big Spin Jackpot winners. As of December 31, 2003 the contingent liability for future prize payments funded through the purchase of annuities was $745,000.

11. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on

February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

As of December 31, 2003 the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Lotto*America winners was $21,234,731. The combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was $24,770,218.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

12. LEASES

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a noncancelable lease agreement that is effective March 2002 through February 2007. The monthly lease payments through February 2004 are $7,257 and will increase 1.5% per year.

13. LONG-TERM DEBT

Note Payable. A contract with Autotote Lottery Corporation required the purchase of an online gaming system including terminals and software. The Lottery paid Autotote Lottery Corporation $5,025,311 for the system by entering into a loan

agreement with Norwest Investment Service, now known as Wells Fargo Brokerage Services, LLC. The loan will be repaid in quarterly installments of $286,394.30 over five years. The first payment was due July 26, 1999. The interest rate on the loan is 5.12%.

Maturities of Long-term Debt

Year Ended June 30,

2004	1,109,836
2005 and beyond	0
Total	$ 1,109,836

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